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**Financial reports and audited financial statements,
and reports of the Board of Auditors**

Concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the annual financial period 2014

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly, pursuant to resolution 47/211, a concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors on its audit of accounts for the year ended 31 December 2014.

* A/70/150.



Letters of transmittal

Letter dated 30 June 2015 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you a concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the annual financial period 2014.

(Signed) **Mussa Juma Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors

**Letter dated 30 June 2015 from the Chair of the Board of Auditors
addressed to the Secretary-General**

I have the honour to transmit to you the concise summary of the principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its seventieth session.

(Signed) **Mussa Juma Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors

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Abbreviations

IPSAS	International Public Sector Accounting Standards
ITC	International Trade Centre
UNAMID	African Union-United Nations Hybrid Operation in Darfur
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UN-Habitat	United Nations Human Settlements Programme
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNISFA	United Nations Interim Security Force for Abyei
UNITAR	United Nations Institute for Training and Research
UNMIS	United Nations Mission in the Sudan
UNODC	United Nations Office on Drugs and Crime
UNOPS	United Nations Office for Project Services
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNU	United Nations University
UN-Women	United Nations Entity for Gender Equality and the Empowerment of Women
WFP	World Food Programme

Concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the annual financial period 2014

Summary

The General Assembly, in its resolution 47/211, invited the Board of Auditors to report in a consolidated fashion on major deficiencies in programme and financial management and cases of inappropriate or fraudulent use of resources together with the measures taken by the relevant entities. The findings and conclusions included in the present report relate to the common themes and major issues identified in the Board's reports addressed to the General Assembly on 20 entities, including the United Nations peacekeeping operations and United Nations Joint Staff Pension Fund (see annex 1). The contents of the Board's reports to the Security Council and other governing bodies are not summarized herein.

The present report summarizes the major issues, including on performance matters, reported in the separate reports on the United Nations entities submitted to the General Assembly. Most of the issues contained in the present report are of a cross-cutting nature on the pre-determined audit themes based on established audit risks and special requests by the Advisory Committee on Administrative and Budgetary Questions.

Detailed findings and recommendations relating to individual entities are contained in their respective audit reports.

I. Scope and mandate

1. The present report includes findings and conclusions identified in the Board's reports in 2014, addressed to the General Assembly, on 20 entities, including the United Nations peacekeeping operations and the United Nations Joint Staff Pension Fund (see annex I).¹ The Board also draws on its reports on two stand-alone topics for the same period.²

2. From 2014 onwards, as noted by the General Assembly in its resolution 68/19, as all entities have implemented IPSAS and are reporting annually, the Board will issue its concise summary on an annual basis. The detailed findings and recommendations relating to individual entities are contained in their respective audit reports.

3. On 27 January 2014, the Chair of the Advisory Committee on Administrative and Budgetary Questions, in the context of resolution 68/19, requested the Board to continue to provide information on cross-entity issues, namely, the need for:

- Enhanced control and monitoring over implementing partners owing to the potential for abuse by third parties that execute activities on behalf of United Nations entities;
- Strengthened core business functions, such as procurement, contract management and financial and budgetary management, through enhancement of staff skills;
- Enhanced oversight, accountability and governance for globally dispersed operations and the achievement of an optimal balance between decentralized delegated authority and the appropriate level of monitoring and control by the respective headquarters offices.

4. The request was reiterated on 19 February 2015 in the context of resolution 69/249. The Board has continued to report on cross-entity issues in its entity-level reports. It has also included commentary in the present summary report on employees benefits liabilities (sect. II. C), IPSAS implementation and realization of benefits (sect. II. D), accountability and governance for globally dispersed operations (sect. II. E), implementing partners (sect. II. F), awareness of fraud risks (sect. II. G), staff skills relating to core business functions (sect. II. H) and budget implementation (sect. II. I).

5. In addition, on 26 January 2015, the Chairman of the Advisory Committee requested the Board to expand its comprehensive audit of official travel financed from peacekeeping budgets to include official travel undertaken by special political missions (see A/69/628, para. 32).

¹ To better support the General Assembly in its governance role, the Board includes United Nations peacekeeping operations in the present report to provide a more comprehensive picture of major deficiencies identified in its reports. The peacekeeping operations have an annual financial cycle ending 30 June and, therefore, the figures related to those operations are as at that date unless otherwise indicated. Since 2012, nine entities have implemented IPSAS and prepared financial statements on an annual basis. As at 1 January 2014, all the remaining entities had adopted IPSAS and are now reporting annually.

² The annual reports of the Board on Umoja and the capital master plan.

6. In addition, the Advisory Committee requested the Board to expand coverage of its audit of information and communications technology (ICT) expenditure in the United Nations peacekeeping operations to all Secretariat entities, main duty stations and other field-based offices and report thereon in the context of a future report of the Board (see resolution 69/262, sect. II, para. 17).

II. Overall matters for the United Nations

A. Audit opinions

7. The Board of Auditors audited the financial statements and reviewed the operations of 20 organizations, including the United Nations peacekeeping operations and the United Nations Joint Staff Pension Fund (see annex I), in accordance with General Assembly resolution 74 (I) of 7 December 1946. All 20 entities received unqualified audit opinions.

8. Only one entity, the International Criminal Tribunal for Rwanda, had an emphasis of matter drawing attention to the timelines and processes for the closure of the Tribunal and the transfer and disposal of its assets and liabilities to the International Residual Mechanism for Criminal Tribunals. However, its audit opinion is not qualified.

9. The Board has issued short-form reports reflecting its audit opinions together with long-form reports, which contain detailed findings and recommendations arising from each audit (annex II contains a description of the types of audit opinions).

10. Despite some challenges faced by all entities in the process of adopting IPSAS, the Board notes a trend of continuing improvement in the preparation processes related to financial closure and the presentation of financial statements. This was a significant achievement that shows the commitment of United Nations entities to delivering on their respective responsibilities for reporting their use of financial resources in accordance with the IPSAS framework.

B. Financial performance

Out-turn

11. Of the 20 audited entities, 14 closed the financial year with a surplus, while 6 reported deficits. Six entities (the United Nations Capital Development Fund, UNEP, UN-Habitat, UNICEF, UNRWA, and UN-Women) recorded the highest surpluses, ranging from \$11 million to \$573 million. The scale of surplus is explained by the operationalization of resource mobilization strategies, including the diversification of donor-bases and strengthening of relationships with donors, as well as increases of humanitarian aid to respond to ongoing conflicts in some areas of operation, such as the Gaza Strip and the Syrian Arab Republic. In some cases (e.g., UNEP and UN-Habitat), however, the large surpluses were a result of delays in implementing some of the activities planned for the year.

12. Table 1 shows a comparison of net assets in 2013 and 2014. The financial statements of six entities (the International Criminal Tribunal for Rwanda, the

International Criminal Tribunal for the Former Yugoslavia, UNDP, UNHCR and the operations of the United Nations as reported in volume I) showed declining reserves resulting from deficits ranging from \$1.0 million to \$348.2 million. Two entities (UNDP and the operations of the United Nations as reported in volume I) also reported deficits in 2013. Such sustained deficits will weaken the financial reserves and could have a negative impact on the overall financial health of the entities and on their ability to meet some of their liabilities.

Table 1
Net assets held as at 31 December 2014

(Thousands of United States dollars)

Entity	Net assets		Variance increase (decrease)		Reasons for the variance
	December 2014	December 2013 restated	Percentage	Improved declined	
United Nations (Vol. I)	1 689 895	2 999 514	(44)	Declined	Actuarial losses on after-service health insurance revaluation and deficit recorded for the year.
United Nations peacekeeping operations	954 507	1 159 028	(18)	Declined	Mainly because of an increase in employee benefits liabilities.
ITC	16 574	30 727	(46)	Declined	Actuarial losses on revaluation of after-service health insurance (partly offset by a surplus).
United Nations Capital Development Fund	109 870	80 525	36	Improved	Increase in investments in 2014.
UNDP	4 185 237	4 729 874	(12)	Declined	Decline in voluntary contributions in 2014.
UNEP	1 136 568	1 014 007	12	Improved	Increase in unrestricted fund balances.
UNFPA	727 430	759 394	(4)	Declined	Increase in programme implementation under earmarked resources and actuarial losses on after-service health insurance.
UN-Habitat	323 227	316 159	2	Improved	Decrease in surplus of earmarked resources and increase of unfunded portion of employee benefits liabilities.
UNICEF	4 468 435	4 104 155	9	Improved	Accumulated surplus increased but the reserves declined. Actuarial loss of \$207 million and reduction in investment reserves by \$2 million were offset by an increase in reserves by apportionment from the surplus for the year of \$37 million, resulting in a decrease in reserves of \$172 million (pursuant to note 20 of the financial statements of UNICEF for 2014). However there was an overall increase in net assets.

Entity	Net assets		Variance increase (decrease)	Improved declined	Reasons for the variance
	December 2014	December 2013 restated	Percentage		
UNITAR	16 200	13 890	17	Improved	Variance was mainly due to operating surplus.
UNHCR	1 125 000	1 528 000	(26)	Declined	Actuarial losses on after-service health insurance and a gross increase in staff benefit liabilities of \$142 million. In addition, increased operational activity in 2014 created an excess of expenditure, depleting accumulated reserves.
United Nations Joint Staff Pension Fund	52 883 484	51 472 754	2.7	Improved	Decrease of end-of-service payments due to the increase of the retirement age to 65.
UNODC	471 711	493 791	(4)	Declined	Mainly due to a reduction in non-current asset voluntary contributions.
UNOPS	78 500	82 756	(5)	Declined	Actuarial losses on after-service health insurance revaluation exceeding surplus generated from operational activities.
UNRWA	320 066	274 531	17	Improved	Mainly owing to the increase in donor contributions to UNRWA emergency appeals in response to the conflicts in the Gaza Strip and the Syrian Arab Republic.
UNU	389 031	395 412	(2)	Declined	The marginal decline was due to the 2014 deficit and actuarial losses on employee benefits liabilities.
UN-Women	345 647	298 325	16	Improved	The operational reserve was increased by \$2.8 million (13 per cent) in accordance with Executive Board decision 2012/8 (see UNW/2012/16).
International Criminal Tribunal for Rwanda	(22 457)	(13 385)	(68)	Declined	The movement in net assets during the year was a result of the restatement for IPSAS compliance and net actuarial gains owing to experience adjustments incorporated into the actuarial calculation of the employee benefits liabilities.
International Criminal Tribunal for the Former Yugoslavia	6 287	23 304	(73)	Declined	The movement in net assets during the year was compounded by actuarial losses and the net effect of the restatement for IPSAS compliance.

Entity	Net assets		Variance increase (decrease)	Improved declined	Reasons for the variance
	December 2014	December 2013 restated	Percentage		
International Residual Mechanism for Criminal Tribunals	31 226	1 172	2 664	Improved	Funds received for construction of the premises of the International Residual Mechanism for Criminal Tribunals in Arusha.

Source: 2013 and 2014 financial statements for United Nations organizations.

Ratios

13. The Board has used ratio analysis, when relevant,³ to assess financial sustainability and liquidity across United Nations entities (table 2). Generally, a ratio of 1:1 or greater is considered to be a sound indicator of financial sustainability and liquidity, enabling the entities to meet all current liabilities without disposal of non-current assets.

Table 2
Ratio analysis as at 31 December 2014

Entity	Current ratio ^a Current assets: current liabilities		Total assets: total liabilities ^b		Cash ratio ^c Cash + short-term investments: current liabilities		Quick ratio ^d Cash + short-term investments + accounts receivable: current liabilities	
	2014	2013	2014	2013	2014	2013	2014	2013
UNICEF	2.79	3.18	2.04	2.05	1.33	1.73	2.01	2.53
UNRWA	3.03	2.41	1.48	1.35	1.83	1.57	2.52	2.14
UNFPA	2.5	4.6	2.3	2.9	1.7	2.9	2.1	4.2
UN-Women	12.6	8.9	5.2	4.7	9.9	7.2	10.3	7.6
UNDP	3.62	4.42	2.81	3.37	3.12	3.86	3.34	4.09
UNHCR	6.87	8.7	2.28	3.2	3.1	3.5	5.7	7.3
UNOPS	0.63	0.73	1.07	1.08	0.57	0.67	0.61	0.78
United Nations Capital Development Fund	22.5	30.2	7.6	6.9	17.3	24.1	22.0	28.5
United Nations Vol. I	2.73	–	1.29	–	1.5	–	3.36	–
United Nations peacekeeping operations	0.97	–	1.25	–	0.51	–	0.80	–
ITC	2.84	–	1.14	–	1.26	–	2.77	–
International Residual Mechanism for Criminal Tribunals	2.6	–	4.0	–	4.0	–	3.5	–
UNEP	4.84	–	3.79	–	1.61	–	3.72	–

³ Owing to the differing nature of operations and mandates, we have not included similar ratios for the United Nations Joint Staff Pension Fund.

Entity	Current ratio ^a		Total assets: total liabilities ^b		Cash ratio ^c		Quick ratio ^d	
	Current assets: current liabilities				Cash + short-term investments: current liabilities		Cash + short-term investments + accounts receivable: current liabilities	
	2014	2013	2014	2013	2014	2013	2014	2013
UN-Habitat	4.72	—	3.89	—	0.42	—	3.94	—
UNITAR	4.98	—	2.15	—	2.95	—	4.58	—
UNODC	3.1	—	2.41	—	1.62	—	3.22	—
UNU	7.63	—	5.87	—	7.31	—	7.59	—
International Criminal Tribunal for Rwanda	2.34	—	0.72	—	2.3	—	1.45	—
International Criminal Tribunal for the Former Yugoslavia	1.1	—	5.3	—	3.2	—	3.3	—

Source: Board analysis of financial statements.

Note: All entities without 2013 comparative figures adopted IPSAS in 2014.

^a A high ratio indicates an entity's ability to pay off its short-term liabilities.

^b A high ratio is a good indicator of solvency.

^c The cash ratio is an indicator of an entity's liquidity that measures the amount of cash, cash equivalents and invested funds there are in current assets to cover current liabilities.

^d The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets that are more difficult to turn into cash. A higher ratio means a more liquid current position.

14. During 2014, all entities demonstrated financial sustainability, as their total assets exceeded total liabilities and, therefore, they had sufficient assets to cover their immediate and longer-term liabilities. The current ratio of two entities (United Nations peacekeeping operations and UNOPS), was below one, indicating that they did not have sufficient current assets to meet their current obligations as at 31 December 2014.

15. The Board highlights the following issues regarding the financial ratios:

- With respect to 2014 current ratios, the ratios of total liabilities to total assets and the cash ratios for the entities that adopted IPSAS in 2012 (except UN-Women and UNRWA) declined compared to the 2013 figures. The decline is explained by investments in long-term portfolios and the changes in the discount rates applied by the actuary when valuing post-employment benefits. On the other hand, the ratios for UNRWA and UN-Women increased as a result of contributions received at the end of the financial year.
- A similar decline in the quick ratio is noted for those entities that adopted IPSAS in 2012. However, UNRWA, UN-Women and the United Nations Capital Development Fund had an improved liquidity position owing to the receipt of monetary assets towards the end of the year.
- Movement in the ratios for the entities that adopted IPSAS in 2014 can only be assessed from 2015 financial statements, when comparative figures become available.

C. Employees benefits liabilities

16. The Board has continued to review the actuarial valuation of accrued end-of-service and post-retirement liabilities and to monitor progress in the management of those liabilities, as summarized in table 3 below. The increases generally reflect updated management assumptions on life expectancy of employees, health-care costs and the discount rates used in the actuarial valuations.

Table 3

Employees benefits liabilities in the United Nations and its funds and programmes

(Thousands of United States dollars)

Organization	Employees benefits liabilities ^a			After-service health insurance			Has funding plan
	2014	2013	Increase (decrease) (percentage)	2014	2013	Increase (decrease) (percentage)	
United Nations Vol. I	4 866 217	3 764 430	35	4 178 673	3 223 015	30	No
United Nations peacekeeping operations	1 420 431	1 183 133	20	1 036 607	896 991	16	No
ITC	90 272	65 069	39	79 845	55 922	43	No
United Nations Capital Development Fund	16 075	12 828	25	13 874	7 899	76	Yes
UNDP	1 413 106	1 113 686	27	1 141 510	858 155	33	Yes
UNEP	165 877	113 888	46	121 186	84 725	43	No
UNFPA	332 084	259 331	31	282 022	209 399	35	Yes
UN-Habitat	35 857	24 687	45	24 750	17 805	39	No
UNICEF	1 298 294	1 018 904	27	1 081 082	816 022	32	Yes
UNITAR	7 139	6 404	61	7 838	4 897	60	No
UNHCR	710 518	565 037	26	545 477	417 590	31	Yes
United Nations Joint Staff Pension Fund	76 992	56 319	37	68 717	51 174	34	Yes
UNODC	119 065	87 523	36	94 219	64 056	47	No
UNOPS	87 069	67 158	27	52 308	38 229	37	Yes
UNRWA	560 268	526 557	6.4	488	495	1.4	No
UNU	17 884	12 063	48	11 799	8 381	41	Yes
UN-Women	73 161	52 605	39	53 200	36 191	47	Yes
International Criminal Tribunal for Rwanda	55 281	56 753	(3)	41 153	40 895	1	No
International Criminal Tribunal for the Former Yugoslavia	54 255	71 703	(24)	36 684	28 544	29	No
International Residual Mechanism for Criminal Tribunals	12 196	3 308	269	7 798	1 659	370	No
Total	11 412 041	9 058 463	26	8 879 230	6 046 022	47	

Source: Financial statements for 2013 and 2014.

^a Employees benefits liabilities include after-service health insurance.

17. As indicated in table 3 above, the aggregate amount of these liabilities was estimated at \$11.41 billion as at 31 December 2014, a sharp increase of \$2.35 billion (26 per cent) from \$9.06 billion as at 31 December 2013. The increase of \$2.35 billion is broadly attributable to the change in inflation rates and discount rates used in actuarial valuations.

18. The Board highlights the following issues regarding the end-of-service liabilities:

- While all entities are now fully disclosing their end-of-service liabilities, thus increasing the visibility of the general level of growth, only a few entities have developed funding plans for those liabilities. Without such plans, entities will face the risk that escalating costs could have a detrimental impact on their ability to pay their end-of-service liabilities in the future;
- Only nine entities have funding plans; however, they do not have clear funding strategies to meet their liabilities. The remaining 11 entities have opted for the pay-as-you-go approach. For instance, the resource mobilization policy of UNRWA is focused on meeting the immediate humanitarian needs of Palestine refugees within a challenging operational environment. UNRWA stated that its end-of-service liabilities would be addressed following a just and durable solution to the Palestine refugee question, and that it, therefore, would rely on the operations of the United Nations as reported in volume I to meet those liabilities in the event that its own services were closed down. However, no written commitment and/or corresponding provision of funds has been made by the latter.

19. The pay-as-you-go basis can be a valid mechanism for funding liabilities, but it runs the risk that the entity will be increasingly unable to fund end-of-service liabilities from its existing resources in the event of any significant changes to its operations or mandate. A funding plan provides clarity on the approach adopted and places the funding decision within a clear process of accountability.

D. Implementation of the International Public Sector Accounting Standards and realization of benefits

20. In accordance with General Assembly resolution 61/233, and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions regarding the adoption of IPSAS (see A/65/782, paras. 18 and 19), the Board has continued to assess the status of IPSAS implementation in its entity-level reports.

21. While the entities that have adopted IPSAS since January 2012 have demonstrated continued efforts to clear up the deficiencies reported in the past two years, the Board noted that those entities still faced several challenges. For instance, of the nine entities in question, only four (United Nations Capital Development Fund, UNDP, UNFPA and UN-Women) have developed structured benefit realization plans intended to demonstrate how IPSAS adoption has achieved the intended objectives. The majority of entities, therefore, have not been able to show the qualitative and quantitative benefits they have realized since their adoption of IPSAS (see table 4 below). ITC, UNEP, UN-Habitat, the operations of the United Nations as reported in volume I and the United Nations peacekeeping operations,

which adopted IPSAS in 2014, have developed benefit realization plans, but those plans are in need of improvement.

Table 4

Implementation of the International Public Sector Accounting Standards and realization of benefits

<i>Entity</i>	<i>Quality of accounting policies</i>	<i>Ability to produce timely, high-quality financial statements</i>	<i>Have a benefit realization plan and use IPSAS data for decision-making</i>	<i>Other matters/weaknesses observed</i>
United Nations (Vol. I)	Good	Not satisfactory	Yes	The boundary between volume I and volume II is defined based on common governance arrangements and, while compliant with IPSAS, is not rigid. For example, volume I contains two peacekeeping operations.
United Nations peacekeeping operations	Satisfactory	Not satisfactory	Yes	The Administration recognized liability, made provision of \$300.9 million for uncommitted appropriations for 2013/14. The Administration also revised accounting policy disclosures by specifying the threshold limit for the capitalization of different categories of plant, property and equipment, subclasses of assets and their useful life and the materiality threshold for the capitalization of non-financial inventory.
ITC	Good	Satisfactory	Yes	Overall, there was a high error rate. ITC had to make some material adjustments to the accounts mainly in relation to exchange rates and completeness. Processes need to be better embedded to ensure that management identifies accrual transactions and more deeply embeds IPSAS principles into the wider business.
United Nations Capital Development Fund	Good	Satisfactory	Yes	No material weakness were noted in IPSAS.
UNDP	Good	Satisfactory	Yes	UNDP had pending milestone amounts, with estimated completion dates ranging from 20 June 2012 to 31 December 2014, amounting to \$3.23 million. Untimely clearance of due date milestones creates a risk that revenue may be inaccurately recorded in the financial statements. The Board reviewed the IPSAS dashboard and noted that \$0.38 million, \$2.84 million and \$2.93 million have been outstanding since December 2011, December 2012 and December 2013, respectively. Despite having these long-outstanding receivable balances, no assessments have been done by UNDP to determine the need for the provision of an allowance for doubtful debts.
UNEP	Good	Satisfactory	Yes	The weaknesses identified during the IPSAS opening balances audit were all subsequently cleared during the final audit.
UNFPA	Good	Satisfactory	Yes	None

<i>Entity</i>	<i>Quality of accounting policies</i>	<i>Ability to produce timely, high-quality financial statements</i>	<i>Have a benefit realization plan and use IPSAS data for decision-making</i>	<i>Other matters/weaknesses observed</i>
UN-Habitat	Good	Satisfactory	Yes	Deficiencies, including lack of standard operating procedures for assets below the property, plant and equipment threshold and the incorrect recognition of loans, were not adjusted as management considered them to be quantitatively immaterial. The Board, however, is of the view that they should also be rectified because they are at risk of being misstated.
UNICEF	Good	Good	No	Management needs to establish clear guidelines and define direct costs that could be attributed to programmes and projects so as to enhance adherence to the distinction between programme budgets as envisaged in the Financial Regulations and Rules.
UNITAR	Satisfactory	Satisfactory	No	Certain deficiencies, such as an understatement of current liabilities, were noticed during the audit of financial statements and were revised by UNITAR.
UNHCR	Good	Good	No	Use of the richer IPSAS data will be enhanced by the upgrade to the enterprise resource planning system in 2017.
United Nations Joint Staff Pension Fund	Good	Good	No	The United Nations Joint Staff Pension Fund did not have a cash flow statement but agreed to prepare one as part of financial statements from 2015 onward.
UNODC	Satisfactory	Satisfactory	No	Until the new enterprise resource planning system is implemented in 2016, the accounts process will involve significant manual intervention, increasing the risk of error. Legacy financial systems do not capture the information required for IPSAS purposes, making accounts preparation unduly difficult.
UNOPS	Satisfactory	Satisfactory	No	Until the new enterprise resource planning system is implemented in 2016, the accounts process will involve significant manual intervention, increasing the risk of error. Legacy financial systems do not capture the information required for IPSAS purposes, making accounts preparation unduly difficult.
UNRWA	Good	Satisfactory	No	Inadequate knowledge of IPSAS requirements has led to inaccurate figures, non-recognition of some revenue contributions from multi-year agreements and deficiencies in measurements and disclosure.
UNU	Good	Good	No	None
UN-Women	Good	Satisfactory	Yes	None
International Criminal Tribunal for Rwanda	Good	Not satisfactory	No	Failed to produce dry-run statements as planned, as several challenges were encountered in the process.
International Criminal Tribunal for the Former Yugoslavia	Good	Not satisfactory	No	Failed to produce dry-run statements as planned, as several challenges were encountered in the process.

<i>Entity</i>	<i>Quality of accounting policies</i>	<i>Ability to produce timely, high-quality financial statements</i>	<i>Have a benefit realization plan and use IPSAS data for decision-making</i>	<i>Other matters/weaknesses observed</i>
International Residual Mechanism for Criminal Tribunals	Good	Not satisfactory	No	Failed to produce dry-run statements as planned, as several challenges were encountered in the process.

Source: Board reports 2014.

Key:

Good — No substantial deficiencies were noted in any financial statement line items nor in the format of presentation.

Satisfactory — Minor deficiencies were noted.

Not satisfactory — Several material misstatements or deficiencies were noted and rectified post-audit.

22. The Board acknowledges that the entities that adopted IPSAS in 2014 have just started the process of benefits realization. The operations of the United Nations as reported in volume I have developed a benefits realization plan, including opportunities for some longer-term changes. Key benefits expected from IPSAS include alignment with best practices, improved stewardship of assets and liabilities, more comprehensive information on costs, improved transparency and accountability and greater consistency across the United Nations system.

23. All entities audited in 2014 had varying levels of errors in the preparation of financial statements, which necessitated some adjustments or revisions. The major areas of concern were non-recognition of some contributions from multi-year agreements, incorrect measurement and disclosure of property, plant and equipment, inventory recognition and foreign exchange transactions that resulted in the misstatement of some balances. Four entities (the International Criminal Tribunal for the Former Yugoslavia, the International Criminal Tribunal for Rwanda, the International Residual Mechanism for Criminal Tribunals, and the operations of the United Nations as reported in volume I) did not produce dry-run financial statements, which could have minimized the number of errors noted during the audit of financial statements. As expected in the first year of such a major change to the accounting framework, the Board identified a number of significant audit adjustments. All material misstatements were amended by management as part of the normal audit process.

24. Overall, the delivery of IPSAS-compliant financial statements for all United Nations entities has been a significant achievement. However, the ultimate test of success will be to further develop and sustain a strong financial function to prepare high-quality financial statements, underpinned by more accurate data from financial systems. The Board has observed the need to use IPSAS to drive improved financial management more widely across the operations of the United Nations entities and to provide a better focus on timely and accurate data to support financial and cost accounting. The Board will continue to stress the need for clear benefits realization plans and the benefits accruing to financial management within each of the entities.

E. Governance, accountability and risk management

25. To deliver the objectives of an organization, management needs to establish an effective system of governance and internal control. Anything that threatens the

delivery of the objectives needs to be identified and actively managed, and this is why an organization-wide approach to risk management is of fundamental importance.

Managing globally dispersed operations

26. The United Nations and its funds and programmes have continued to evolve as decentralized organizations. Many operate devolved field networks and rely on third parties to deliver large parts of their mandates, often in some of the most challenging environments in the world. This has, over time, created a complex network of organizations, reporting lines and relationships, in which accountabilities are often unclear. It is vital, in order to deliver on important mandates and secure value for money from the use of increasingly scarce public resources, that the United Nations and its funds and programmes operate to the highest standards of modern governance, accountability and transparency.

27. The appropriate delegation of authority is a functional necessity in globally dispersed international organizations. In January 2010, the Secretary-General accepted that the prevailing management information systems inadequately supported the delegation process and that there was a need to clarify the responsibilities of all involved through a clear vertical chain-of-command and a central repository of all delegations of authority.

28. UNDP, UNRWA and UN-Women reported clear accountability of resources and delegation of authority at their respective headquarters. For example, UNDP had embarked on a staged restructuring to strengthen its regional presence to better delegate less strategic functions and to be able to monitor those delegations centrally.

29. UNOPS field offices are accountable to regional offices, which are in turn accountable to headquarters. UNOPS reported no issues with that arrangement. UNODC operates through a network of regional, country and project offices. While UNODC has improved its field-based financial systems over time, it still faces limitations in collating timely information from the field in an efficient and effective manner. The financial control environment of that entity is also limited by legacy systems that do not provide the centre with oversight of key compliance measures. Many of those deficiencies could be addressed by successful implementation of Umoja.

Enterprise risk management

30. Enterprise risk management is a systematic process through which risk and opportunities that affect an organization and its ability to achieve its objectives are identified, prioritized and managed.

31. For the operations of the United Nations as reported in volume I, the Board notes that the General Assembly had supported embedding enterprise risk management throughout the Organization. In 2014, there was good progress in some areas, in particular with regard to the management of the six critical risks identified by senior management. However, the operations of the United Nations as reported in volume I has made insufficient progress in embedding enterprise risk management throughout the Organization as a whole. The implementation is not being managed in accordance with the agreed project plan that sets out the overall

timetable, deliverables, key milestones, dependencies and indicators of success and resource requirements.

32. UNHCR has started a structured roll-out of enterprise risk management. In 2014, it issued the supporting administrative instructions and procedures for implementing enterprise risk management, which established the architecture, described roles and responsibilities, risk management processes and compliance requirements. UNHCR has initiated corporate and strategic risk registers to capture risk information from field operations and significant strategic risk areas for the entire organization. The first structured risk assessment was launched in 2014 and is expected to be complete in 2015. Periodic risk reviews have been integrated in the operations management cycle.

33. UNODC has documented its high-level risks and is making efforts to drive the process down to the operational level. It has established a risk focal point within the Office of the Executive Director to emphasize the importance of the process. Additional risk focal points have been appointed at the divisional level. The focal points meet on a quarterly basis. Field offices have received risk training and other support to produce risk registers, which should enable better understanding of field office risks and their management, as well as validate the organizational risk registers. As at April 2015, UNODC was completing a pilot exercise in seven field offices to compile risk registers for their activities. It has also required each division to produce its own risk register, with training for all programme managers to be held in the last six months of 2015.

34. Progress in implementing enterprise risk management in other areas of the United Nations has been disappointing as the framework for doing so has not yet been formalized.

F. Implementing partners

35. Implementing partners are a critical part of the service delivery model of many United Nations system entities. They vary widely in terms of their size and role, ranging from host Governments to other United Nations entities, and from large-scale multinationals to smaller and/or local non-governmental organizations. The types of projects and programmes delivered by implementing partners also vary in size, duration and cost.

36. A core principle of accountability is that when management passes funds to another organization, regardless of the type of partner, it should operate an effective regime to ensure that the funds have been used for the purposes intended, the risk of fraud and error has been minimized and that funds have delivered the desired outcomes in a cost-effective manner. Effective governance needs to be objectively demonstrated to donors to provide confidence that funding is being used appropriately and to good effect.

Progress in establishing more consistent ways of working

37. A harmonized approach to cash transfers was introduced in 2005 by the then Executive Committee of the United Nations Development Group, which was composed of UNDP, UNFPA, UNICEF and WFP. In November 2012, the

Development Group received an unsatisfactory joint internal audit review,⁴ which concluded that internal controls and governance arrangements had either not been established or were not functioning well.

38. In its previous summary report, the Board noted that the Development Group had started to revise the harmonized framework to increase effectiveness, consistency of application and reduce the burden on agencies and implementing partners. The new framework has been approved, and UNDP is in the process of embedding the new framework, with some country offices yet to adopt it, and variations in the level of compliance among those that had.

39. This year the Board saw further progress by other United Nations entities in how they had improved the consistency of selection, monitoring and close-out of projects delivered by implementing partners. For example, the Office for the Coordination of Humanitarian Affairs (under operations of the United Nations as reported in volume I), and UNODC have developed and are now embedding their own global guidelines to improve consistency across their respective global networks. For both entities, the guidelines are designed to ensure there is a risk-based approach to managing implementing partners, including the application of capacity assessments where appropriate.

Use of information

40. Good information is vital to management in making the right decision when approving a project and in selecting the partner to deliver it. In its previous summary report, the Board raised concerns that United Nations entities operating in the same regions, many using the same third parties, had no formal mechanism to share information on partner performance. In response to the Board's recommendations, the then Executive Committee of the United Nations Development Group and the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination had developed two task forces to consider the establishment of a formal requirement for sharing information on the performance of implementing partners. The Board will continue to review progress in that regard.

41. Implementing partners are essential for the delivery of the UNHCR programme, and implementing partner costs continue to be the main area of expenditure for UNHCR, increasing from some \$1.068 billion in 2013 to \$1.348 billion in 2014. The Board notes that management closely monitors implementing partner costs, but could do more to scrutinize and challenge implementing partner expenses to prevent the funding of any excess administrative costs. In addition to the management processes employed by UNHCR, a key control over spending by implementing partners is the annual audit certification process. In 2014, UNHCR implemented a new process for selecting external auditors by establishing partnership arrangements with audit firms that can undertake regional or global audit work. Those agreements have enabled UNHCR to establish greater consistency and quality over the outputs arising from those audits.

⁴ The audit was conducted by the Office of Internal Audit and Investigations of UNICEF, with the Division for Oversight Services of UNFPA as lead auditor, and the Office of Audit and Investigations of UNDP.

G. Awareness of fraud

42. The Board assessed the awareness of fraud and of counter-fraud measures in 20 United Nations entities using data supplied by management (table 5). Eight entities were identified as needing clearer programmes to raise fraud awareness through training of their employees and key stakeholders.

43. Overall, the level of reported fraud and presumptive fraud in 2014 was lower than in 2013. For example, disclosures by UNDP, UNEP, UNHCR, UNODC, UNOPS and UNRWA show a reduced level of fraud and presumptive fraud. However, UNFPA, UNICEF and United Nations peacekeeping operations have shown significant increases in cases of fraud and presumptive fraud.

44. The level of fraud and presumptive fraud reported by the operations of the United Nations as reported in volume I has also decreased, but many departments and offices failed to report the details of fraud cases identified in 2014. Consequently, the Board can provide no assurance that the amounts reported and disclosed by management in Volume I are complete or accurate.

Table 5
Fraud events, awareness and prevention measures

<i>Entity</i>	<i>Number of fraud and presumptive fraud cases</i>		<i>Has a policy on fraud</i>	<i>Has fraud awareness and training</i>	<i>Has reporting and monitoring mechanisms</i>	<i>Has resources allocated for anti-fraud measures and activities</i>	<i>Has investigative capacity and capability</i>	<i>Has mechanism for recovery of damages, losses and assets</i>	<i>Has an adequate strategy in place</i>
	2014	2013							
United Nations (Vol. I)	2	18	Yes	No	Yes	Yes	Yes	Yes	No
United Nations peacekeeping operations	39	29	Yes	No	Yes	Yes	Yes	Yes	No
ITC	0	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes
United Nations Capital Development Fund	0	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes
UNDP	7	22	Yes	Yes	Yes	Yes	Yes	Yes	Yes
UNEP	0	3	No	No	Yes	No	Yes	Yes	No
UNFPA	9	2	Yes	Yes	Yes	No	Yes	Yes	Yes
UN-Habitat	1	1	No	No	Yes	No	Yes	Yes	No
UNICEF	32	20	Yes	Yes	Yes	No	Yes	Yes	Yes
UNITAR	0	0	Yes	No	Yes	No	Yes	No	No
UNHCR	11	16	Yes	Yes	Yes	Yes	Yes	Yes	No
United Nations Joint Staff Pension Fund	1	0	Yes	Yes	Yes	Yes	Yes	Yes	No
UNODC	1	6	Yes	No	Yes	No	Yes	Yes	No
UNOPS	6	9	Yes	Yes	Yes	Yes	Yes	Yes	Yes
UNRWA	11	20	No	Yes	No	No	No	Yes	No
UNU	0	0	Yes	No	Yes	No	No	Yes	No
UN-Women	3	4	Yes	Yes	Yes	No	Yes	Yes	Yes
International Criminal Tribunal for Rwanda	0	0	No	Yes	Yes	No	Yes	No	No
International Criminal Tribunal for the Former Yugoslavia	0	0	Yes	Yes	Yes	Yes	Yes	Yes	No
International Residual Mechanism for Criminal Tribunals	0	0	Yes	Yes	Yes	Yes	Yes	Yes	No

Source: Board reports on the individual entities.

Anti-fraud policies and strategy

45. In the previous concise summary report, the Board noted that only UNOPS had established an integrated counter-fraud strategy that focused on all types of fraud (both internal and external). The assessment in 2014 showed that, although some 16 entities had developed policies, 13 entities did not have adequate strategies for implementation. For instance, UNRWA had not established reporting and monitoring mechanisms and had no policy on fraud, no resources allocated to anti-fraud measures and activities and no capability or capacity to investigate fraud. UN-Habitat had no policy on fraud, no fraud-awareness training and no resources allocated for anti-fraud measures and activities. The United Nations (Vol. 1) had neither fraud awareness training nor adequate strategies in place.

Fraud risk assessments

46. Fraud risk assessments are an invaluable resource for fraud examiners to use to identify and address the vulnerability of their clients or employers to internal fraud. Fraud examiners can use that resource to assist organizations in obtaining a better understanding of the overall fraud threat they face, identifying fraud risks and developing a fraud risk response.

47. Fraud risk is one component of operational risk. Operational risk focuses on the risks associated with errors or events in transaction processing or other business operations. A fraud risk review considers whether these errors or events could be the result of a deliberate act designed to benefit the perpetrator. As a result, fraud risk reviews should be detailed exercises conducted by teams combining in-depth knowledge of the business and market with detailed knowledge of and experience in dealing with fraud.

48. Detailed fraud risks need to be assessed for each business area and process, including, for example, cash payments, cash receipts, sales, purchasing, implementing partner expenditures, expenses, inventory, payroll, fixed assets and loans. This has to be aligned with and benchmarked against the existing system of internal control and the business environment of the entity.

49. The environment in which the United Nations operates is complex and high-risk. Dependency on third parties and the delivery of projects through implementing partners in remote and often unstable areas means that the United Nations is exposed to higher risks of fraud. Consequently, the United Nations needs to be alert to fraud risks and to establish a clear risk appetite to inform that assessment. It also needs to develop a more coherent and consistent approach to dealing with fraud by developing fraud response plans that set out the arrangements for dealing with detected or suspected cases of fraud.

50. The Board has noted the good progress within UNHCR in formulating a clear approach and process for developing fraud risk assessments. The assessments will be used to inform clear fraud mitigation plans and provide a focus for training and for the review of the internal control environment in the areas identified as high-risk. The plans have been developed in a systematic manner and have built upon the views of a cross-section of relevant staff throughout the organization.

51. UNDP, UNFPA, UNHCR, UNICEF, UNOPS and UN-Women have a global presence and are exposed to high risks of fraud through their work with third parties such as implementing partners and contractors. Therefore, these entities need to

consider their risk appetite and develop fraud response plans as formal means of clearly setting down the arrangements for dealing with detected or suspected cases of fraud, and to develop wide-ranging strategies and resources for fraud mitigation.

Fraud reporting

52. The Board noted varying definitions of fraud and presumptive fraud across the United Nations system. This variation arises from the different policies adopted by each entity and the ethical framework and reporting bureaucracy for dealing with fraud. In 2013, there were varying levels of disclosure among the entities; there was no correlation between the magnitude of the reported fraud cases vis-à-vis the volume of transactions or the degree of entity decentralization.

53. In 2014, the Board worked with United Nations entities to develop a consistent approach to reporting fraud, suggesting templates that would bridge the reporting gap. That goal was not achieved, however, owing to the lack of a definitive legal interpretation and the need for the entities to harmonize their fraud reporting policies. Therefore, the reported levels of fraud across the United Nations system are being measured inconsistently. The Board has also determined that, as a consequence of this and of the lack of fraud response plans, the levels of fraud are likely to be underreported. The Board will continue to work with United Nations organizations to ensure that there is a consistent approach to reporting. The Joint Inspection Unit has also indicated it will address this area.

54. All entities (except the International Criminal Tribunal for Rwanda) have mostly engaged their internal auditors to investigate cases of fraud. While some procedures for the sanction and deterrence of fraud have been put in place, the absence of fraud response plans mean that the approach is often inconsistent and not systematic.

H. Cost-effective management of core business services

55. Like all organizations, United Nations entities are seeking skilled and professional staff in a highly competitive environment. The continuous improvement of human resources management is, therefore, a necessity. The Board continues to highlight numerous and various deficiencies across entities in human resources management, asset management, procurement and contract management and ICT management. These are all important business functions that are vital to the cost-effective delivery of the core services.

Human resources management

56. Effective workforce management is critical to the ability of an organization to achieve its objectives. It ensures that the organization has the right number of staff with the right skills and in the right locations.

57. In 2013, the Board reported on the use of contractors by UNDP, UNFPA, UNICEF and UN-Women to perform core staff functions (e.g., operations support, administrative and financial assistance) or in roles intended for individuals having United Nations staff status. The Board also found that some staff had not received an annual appraisal, an issue that was also identified in United Nations peacekeeping operations. In 2014, the Board noted that:

- UNFPA had not established a global database for monitoring, controlling and reporting on field office special service agreements and service contracts and that it had long recruitment lead times for filling vacant posts, as recruitment processes took more than six months.
- UN-Women had not yet established an integrated computerized system for managing individuals working under special service agreements; hence the data was only available at the respective field offices and on Share Point, which did not provide real time information. The procedure at the time limited the visibility to headquarters of real-time information for monitoring and decision-making purposes.
- Some 16 per cent of ITC expenditures were on consultants and contractors, all of whom were vital to delivering trade-related technical assistance projects. While ITC had developed a database to manage its consultants, the Board indicated that there was additional scope for utilizing its benefits. The database could provide better information to enable a review of the use of individual contractors, focusing on those contractor duties that overlapped with those of regular staff, and to rationalize the use of contractors.
- Another theme relating to the use of contract services was the lack of formal evaluation of the work performed by contractors and the absence of documentation for capturing the findings of evaluations when they did occur, among other deviations from administrative instructions on the hiring of consultants. In one example pertaining to UNU, the Board found that, as a result of a lack of relevant documentation, a consultant was awarded subsequent assignments despite the specific recommendation to the contrary made in the evaluation conducted under an earlier contract. Deviations were also observed in the United Nations Capital Development Fund, UNDP and UNICEF. The Board continued to emphasize the need for strict adherence to administrative instructions on the hiring of consultants.

Workforce planning

58. Workforce planning provides management with a way to align resources with the business plan, anticipate change and address current and future workforce issues. In 2013, the Board reported that the operations of the United Nations as reported in volume I did not engage in workforce planning and recommended that the administration develop a medium to long-term workforce strategy and operational workforce plans. The General Assembly, in its resolution 68/252, also urged the Secretary-General to develop a workforce planning system as a matter of priority.

59. In 2014, the Board found that workforce planning remained in its infancy, as the Office of Human Resource Managements had prioritized the implementation of Umoja and the new mobility policy. The Office did not have the appropriate policies, people, processes and information systems in place to effectively perform any scenario analysis of the composition and financial costs of the workforce, and was, therefore, not well-placed to advise the Administration on any future resource model to support important management reforms, such as the new global service delivery models, or on staffing changes required to maximize benefits from Umoja.

60. The Board also examined strategic workforce planning by UNHCR, UNODC and UNOPS. It found that all three entities needed better information, for example with regard to skills, as well as longer-term planning to ensure that they could respond to future business and stakeholder needs. UNHCR and UNOPS have taken steps to give their human resources function a more strategic role and are trying to strengthen their workforce planning. As part of this effort, there are lessons to be learned from the staff mobility framework process, both by UNHCR, which has the framework in place, and by UNODC, which will be implementing such a framework in future.

Asset management

61. The Board continues to observe problems related to asset management, including, for example, uncertainty over asset and inventory valuations and high levels of unused assets. While some progress has been made with respect to the type of information being used to improve operational performance, there is a continuing need for enhancement of asset management skills.

62. The Board noted that UNDP had recorded approximately \$80 million in assets that had fully depreciated and had either been retired from use or disposed of. With regard to UNICEF, the Board found that \$3.34 million of expired stock was being held in warehouses, and that there remained scope for improvement of inventory management in terms of closer monitoring of stock levels, monitoring of goods nearing life expiry and effective investigation of items depicted as being in transit for unduly long periods of time. With regard to UNU, although its Maastricht Economic and Social Research and Training Centre on Innovation and Technology had purchased books and study materials in 2012 and 2013 totalling \$111,679, no physical verification of the availability of the books was conducted between 2012 and 2014.

63. The Board also noted deficiencies in asset management in United Nations peacekeeping operations. For example, the total value of items not located during physical verifications of audited peacekeeping missions was \$3.17 million. There were also deficiencies in the utilization of stock: the Board identified \$55.23 million of aging stock that was not being utilized. In addition, at 11 missions, there were assets worth \$12.2 million that were pending write-off. Such prolonged storage and non-usage of assets not only resulted in the blocking of funds that could have been put to better use elsewhere, but also allowed the quality of the property to deteriorate.

64. Notwithstanding the use of transitional provisions by some entities to introduce property, plant and equipment accounting, IPSAS has been used to significantly improve the quality of information pertaining to property, plant and equipment assets, thereby creating improved stewardship and control. It has also resulted in better management of those assets. In UNODC and UNOPS, management has undertaken significant work over the last few years to cleanse asset records and provide better oversight for the use of those assets.

65. UNHCR has been refining its approach to stock accounting and control since its implementation of IPSAS in 2012. Analysis of results from visits to UNHCR warehouses has identified improvements to the quality of inventory system data and the management of items within warehouses. Board analysis has shown that, even as closing inventory values have risen year-on-year in line with the increase in

UNHCR activities, Board analysis has shown that the level of obsolete inventory has decreased significantly, indicating better redeployment of unused stock, which, in turn, reduces holding costs. Management needs to continue to review and investigate inventory variances, as the levels of some inventory holdings remain high, and there is scope for improvement by articulating target levels of inventory against which holdings can be assessed.

Procurement and contract management

66. Procurement is the process of awarding contracts and managing vendors to deliver goods and services in line with business requirements. It plays a critical role in enabling organizations to achieve their objectives. Good procurement can bring improvements in the quantity and quality of goods and services, allow for better management of risk and avoidance of service failures and generate financial savings.

67. Long periods of retendering by UNRWA has led to delays in the procurement process that have resulted in increased costs. In United Nations peacekeeping operations, the Board observed delays at various stages of the acquisition process. Prolonged delays in the procurement of necessary supplies and equipment may compromise the ability of missions to carry out their functions efficiently and in a timely manner and cause them to incur avoidable costs. For example, in two cases, the failure to have new aircraft contracts in place by the time of expiry of the existing contracts resulted in contract extensions at an avoidable cost of \$3.46 million.

68. The Board identified instances of weak management of contractors. Noting that most UNICEF procurement is carried out through complex agreements, the Board found six long-term agreements that did not include provisions for performance security, which could have an adverse impact on UNICEF in terms of timely delivery, costs and the provision of the required services and relief. UNICEF has experienced delays in the delivery of goods and services across regional and country offices. For example, under the Global Alliance for Vaccines and Immunization, although 47 per cent of delivery lines were delayed, the entity only imposed liquidated damages in 0.36 per cent of cases.

69. In the case of the United Nations Capital Development Fund, some offices had not prepared requisition plans for 2014, which inhibited oversight by senior management of procurement needs and limited economies of scale.

70. The operations of the United Nations as reported in volume I Procurement Division has continued to take steps to strengthen the training available to procurement staff. Some departments require staff with contract management responsibilities to complete an online training course detailing roles and responsibilities. For example, the Department of Field Support, has trained over 600 staff members since August 2014. The Administration has also introduced a three-phase training programme that offers the possibility of obtaining an internationally accredited procurement certificate.

Information and communications technology

71. The role of technology in the United Nations has become progressively more critical owing to increasing global reliance on digital advances. The Board

continues to identify deficiencies in the control environment surrounding ICT, including:

- *Weaknesses in security.* In UNOPS, the Board determined that there was no cybersecurity strategy or framework, no response plan and that password access controls were not sufficiently strong. United Nations entities should do more to ensure that their strategies and controls are sufficient to identify and respond to cyber threats. In UNRWA, there was no mobile computing security policy or guideline. In some peacekeeping operations, there were no established procedures to address cyber threats. The absence of such procedures or policies has the potential to disrupt centralized information technology-enabled operations, the restoration of which could be both time consuming and expensive. In United Nations peacekeeping operations, there were no cyber emergency response procedures or designated teams to effectively assess, respond to or mitigate breaches of cybersecurity.
- *Unreliable information systems affecting decision-making.* In UNICEF, there were issues of data inconsistency and reliability between areas of its performance management reporting system and the source systems. In UNEP, there were concerns over the financial data generated from its programme information management system. In UNFPA, non-configuration of the e-service application to accommodate changes and cleanse the data in the system resulted in incorrect and unreliable data being generated from the system, and an absence of control over the recording of leave posed a risk of misstatement of the leave liability balance. In United Nations peacekeeping operations, there were wide variations between allocations and expenditures.
- *Inadequacies of disaster recovery approaches, risking data loss.* In UNRWA, the existing disaster recovery plan did not cover enterprise ICT systems. UN-Women had not tested its disaster recovery plan and could not verify the completeness or reflect actual preparedness to respond to an emergency. In United Nations peacekeeping operations, the Board observed delays in the formulation of business continuity plans, which made the missions vulnerable to a loss of business from external and internal threats. Also, disaster recovery programs were not periodically updated, nor were there awareness and training programs to increase the level of understanding and awareness among the staff. At the International Criminal Tribunal for Rwanda, the disaster recovery test procedures had not been updated to reflect the status of the technology or of individual staff.
- *Inappropriate information technology strategy.* In the United Nations Joint Staff Pension Fund, the Board noted delays in the implementation of an information technology project and additional costs of at least \$3.28 million as at May 2015. In United Nations peacekeeping operations, the Board found that there was no formal policy in place for the assessment of ICT staffing requirements, which posed the risk of less-than-optimal provision of services and operational capabilities to missions and other field units.

Travel management

72. On 7 August 2014, the Advisory Committee on Administrative and Budgetary Questions requested the Board to conduct a comprehensive audit of official travel financed from peacekeeping budgets. Given the importance of optimizing travel

expenditure, the Board extended the scrutiny to other United Nations entities to determine whether there was a cost-effective approach to the booking of tickets, whether sufficient arrangements were in place to maximize the usage of teleconferencing and videoconferencing to save on travel costs and whether the resource requirements for official travel were well justified.

73. The Board noted a positive change at UNEP, UNEPA, UN-Habitat and UNRWA in 2014, as no significant issues were found in relation to travel management. These entities have increased the use of videoconferencing and teleconferencing to minimize travel costs. However, at UNU, in 9 out of 24 cases (38 per cent), the invoice or issuance of e-tickets was made 10 days or less prior to the commencement of travel. Total travel expenses amounted to \$5.2 million and constituted about 7 per cent of total expenses for the year ended 2014. Owing to the purchase of air-tickets close to the date of travel, UNU may have forgone potential cost savings. While the Board noted the steps taken by UNU management to control travel costs through its new travel policy, the organization could also consider increasing the specificity of its travel policy by stipulating the number of days in advance that tickets should normally be purchased, along the lines of the advance purchase policy framed by the United Nations Secretariat (ST/AI/2013/3). Also, the policy should specify the approvals required to deviate from the policy in cases of emergency travel or where adherence to the advance purchase policy may not be practical or possible.

74. In United Nations peacekeeping operations, the Board noted that official travel expenditure exceeded the budget approved for it by 25 per cent. Also, there was an increase in expenditure on official travel from \$46.42 million in 2011/12 to \$65.55 million in 2013/14. Further, the Board found non-compliance with the administrative instructions on the advance purchase policy, which requires that advance booking and purchasing of tickets be finalized 16 calendar days prior to the commencement of official travel. For instance, in a sample of 75 travel requests at Headquarters, travel had been approved less than 16 days prior to the date of departure in 40 cases; no justification was provided by the certifying officer in 4 out of the 40 cases.

75. In January 2015, the Advisory Committee requested that the Board expand its coverage of official travel in United Nations peacekeeping operations to include special political missions. There is inadequate financial and other information on the nature and cost of official travel with respect to special political missions. Inadequate management information systems hinder the administration's ability to monitor and control travel costs effectively. As was the case in United Nations peacekeeping operations, there was widespread non-compliance with the requirement to observe the 16-day advance purchase policy. Most travel cases examined by the Board did not comply with that policy, although along certain routes, this resulted in the purchase of a lower-priced ticket.

76. The Board is of the view that there is a continuing need for the review of the actual requirements for official travel, and entities should take steps to strengthen budget planning for official travel to ensure optimum allocation and utilization of resources. Effective steps are needed to enforce and monitor compliance with the advance purchase policy and, where possible, the use of teleconferencing and videoconferencing by staff and management.

I. Budget implementation

77. The goal of budget implementation is to assure stakeholders that funds are used legally and efficiently, as directed by the relevant authorities, to provide effective public services to the beneficiaries. Senior management, managers and other staff with supervisory roles must develop the required skills, techniques and tools necessary to enable them to implement, manage, monitor and control their budgets effectively. Moreover, identification of budget variances should be an ongoing process, as intervention measures must be applied from the initial stages of the budget implementation period. Managers and other staff entrusted with successful implementation of a budget for their functional areas or for overall budgets must be equipped with those skills if the organization is to achieve its annual plans.

78. Strategic, budget and financial plans should be updated as needed with lessons learned from related monitoring activities, thereby making them living documents. Therefore, budgets often need to be adjusted during the year. Some entities have some delegated authority to adjust budgets on their own. They have differing limits on the transfer of funds between line items during the year. Transfers exceeding the approved entity's authority require approval by higher authorities, for instance an executive board or the Advisory Committee on Administrative and Budgetary Questions. This kind of flexibility is intended to give administrations some latitude to make quick decisions to ensure they can achieve their annual budget milestones and objectives. However, seeking approval from higher authorities for major changes to the budget takes longer and, therefore, forward-planning, including by holding some resources that can be spent more freely, is an essential tool for mitigating risks associated with potential delays.

79. In 2014, the Board reviewed budget implementation across several entities and noted examples in which some organizations reported low levels of budget consumption and other budgetary deficiencies, including:

- UNEP underutilized its budget by 50 per cent due to the inadequate capacity of its implementing partners and delays in releasing funds to its regional office for Asia and the Pacific.
- UN-Habitat underutilized its project budgets by 5 to 67 per cent of the allotted funds for the year 2014 and attributed the shortfall to political instability in Iraq, Sri Lanka and the State of Palestine, as well as the long procedures and processes involved in the recruitment of experts required for projects in Egypt.
- Although UNRWA had implemented austerity measures to ensure budget stability, it reported a shortfall of 4.2 per cent⁵ in the General Fund budget. UNRWA had not developed a clear mechanism to track and quantify the net savings from those measures and to evaluate its budget effectiveness.
- For the operations of the United Nations as reported in volume I, the Office of Human Resources Management was not involved in the creation, continuation, re-classification or abolition of posts as part of the budget process, and did not

⁵ A General Fund deficit of \$30.38 million against total General Fund budget of \$729.3 million in 2014.

have a role in post-budget monitoring and analysis of workforce trends and profiles.

- In United Nations peacekeeping operations, the overall variations between budgetary appropriations and final expenditures under the three broad groups of military and police personnel, civilian personnel and operational costs, for all 15 missions taken together, ranged between 3 and 6 per cent, with the highest variation (29 per cent) occurring under operational expenses for one mission. Also the Board noted significant variations in the budget line items of various missions. For example, for the United Nations Interim Security Force for Abyei, 49 of 104 object codes (47 per cent) had a variance of more than 50 per cent. As for UNAMID, actual expenditure against budget line items under operational costs varied up to 676 per cent (for consultants) for 2013/14. Within line items, the variation went up to 5,555 per cent (for maintenance and repair of information technology equipment) for object codes. For eight object codes, an expenditure of \$9.1 million had been incurred in the absence of a budget for those object codes. For 15 object codes, the entire budgeted amount remained unspent, and there had been significant savings in each of the past three financial years. All variances emanated from the regular expenditures of the Mission, indicating deficiencies in the budgetary planning and projection process.
- Redeployments of expenses among and within different classes were carried out as a matter of routine, taking into account only the availability of the budget under the line items, without evaluating whether the withdrawal of funds from the particular line item would adversely affect the achievement of the annual plan and deliverables committed to under that budget line at the beginning of the year. At the same time, one unit was allowed to use the budget of another unit even though such a requirement had not been anticipated within the original plan. This laxity of control in redeployments facilitated a loss of budgetary discipline and reduced the importance of the budget as a mechanism to control expenditure.
- Some problems with budget implementation, including, for example, lack of realism, inadequate monitoring and lack of forward planning, may reflect deficiencies in formulating estimates. Emergent external factors may similarly stall the pace of budget implementation. For instance, in United Nations peacekeeping operations, unrealistic assumptions were used for budget projections, which resulted in an overestimation of fuel consumption, rations estimates, the aviation budget and freight charges. The overestimations resulted in large-scale underspending; for example, in 2014, the underspending on transport service air landing fees and handling charges reached 34 per cent, and expenditure on oil and lubricants fell short of its budget by 45 per cent.

80. In view of the deficiencies, the entities were advised to review the identified weaknesses in budget formulation and to develop improved principles and methodologies to assist them in formulating realistic, consistent and reliable budgets, as well as to develop the required skills, techniques and tools necessary for more effective implementation, management, monitoring and control of their budgets.

J. Business transformation

81. United Nations organizations face the significant challenge of delivering expanding mandates in times of fiscal constraint. To ensure that resources get to those who need them most, it is essential that they are not locked into administrative overhead, entrenched ways of working or inflexible structures. While financial pressures are important drivers, the need to better use public money is a worthwhile and ethical aim in itself.

82. The Board has reported on a number of major transformation initiatives in several United Nations organizations. A notable example is UNDP, which is undertaking a challenging and ambitious organization-wide change programme to better align resources to the delivery of its strategic objectives. The goal of management is to strengthen the organization's regional presence, consolidate policy functions, rationalize management support functions and improve the ratio of staff to management. The Board has identified opportunities to improve the execution of the change programme, for example by developing benefits realization plans and enhancing the approach to staff engagement within the change process. Efforts by management to reform policies, organizational structures and processes demonstrate its strong commitment to improving the operating model of the organization.

83. The operations of the United Nations as reported in volume I are attempting to implement a number of concurrent major transformation projects, including Umoja,⁶ IPSAS, human resources reform and enterprise risk management. These projects are significant undertakings, and there are signs that the cumulative burden is placing a very heavy demand on key staff. In response, the Board has recommended that the United Nations take steps to improve the coordination of these projects.

84. The United Nations also undertook estate-related projects such as the capital master plan.⁷ In 2014, the Board published a short paper on lessons from the United Nations capital master plan to highlight lessons to be considered in the planning and delivering of future major capital projects.

85. The Board has continued to highlight the need for the United Nations (Vol. 1) to develop a target operating model to help define what work will be delivered at which staff in which locations. While noting management's plans to present a global service delivery model for administrative functions during the seventieth session of the General Assembly, the Board is of the view that any subsequent phase of the global service delivery model should consider wider aspects of United Nations operations so as to ensure effective support to programmes.

86. If the operations of the United Nations as reported in volume I is to effectively deliver on the reforms upon which it has embarked, it needs to ensure it has the requisite skills and experience in organizational business change. The Board continues to question whether that is the case and has reiterated its recommendations that the United Nations both assesses its capability to manage change at the organizational level and established a formal approach to managing

⁶ The Board of Auditors produces a separate annual progress report on Umoja.

⁷ The Board of Auditors produces a separate annual progress report on the capital master plan and will commence reporting on the strategic heritage plan during the seventieth session of the General Assembly.

and improving operations to enable continuous reform and improvement in departments.

87. The Board noted that, in United Nations peacekeeping operations, while the global field support strategy had achieved considerable progress in its aim to improve the quality and speed of support that the Department of Field Support provides to peacekeeping missions, the achievement of the end-state vision and key performance indicators by the end of the strategy's implementation period in June 2015 was at risk.

88. The Board noted, for example, that although a succession management plan had been developed, none of the original timeline goals relating to the human resources pillar had been achieved; there were substantial delays in planning and implementing reforms in supply chain management; the modularization strategic plan had yet to be signed-off upon; all the milestones to be achieved under the revised plan for enabling capacity projects were still at the initial stages; there was limited clarity on when activities related to global field support strategy mainstreaming and forward planning would occur; and weaknesses in progress reporting had deprived management of the opportunity to identify slippages and make necessary mid-course corrections. Hence, progress in the implementation of the global field support strategy needs to be escalated, with a revised and realistic implementation plan, together with a clear benefits realization plan that should be regularly reviewed by management.

89. The Board reports on information technology-enabled business change projects to improve administrative processes at UNHCR, the United Nations Joint Staff Pension Fund, UNOPS, UNRWA and the United Nations itself (i.e., Umoja).⁸ While the projects differ in terms of scale, complexity and the stage in the project life cycle, there are some commonalities, including delays and budget overruns (at the United Nations Joint Staff Pension Fund, UNOPS and for Umoja) and problems putting in place post-implementation support such as help-desks (at UNRWA and for Umoja).

Lessons for United Nations management

90. The Board continues to see the need, at the outset of major transformations, to clearly define what the reforms are intended to achieve, and then to measure that achievement by demonstrating to stakeholders the qualitative and quantitative benefits.

III. Status of implementation of previous recommendations

91. As part of each audit, where the Board observes weaknesses, it considers root causes and the possible impact, and then makes recommendations to address the roots causes. The Board routinely follows up on recommendations made in its previous reports to ensure that the respective organization has taken actions to implement recommendations or, when appropriate, can justify why certain recommendations have not been implemented or have not been accepted.

⁸ The United Nations enterprise resource planning system (Umoja) is being deployed in over 90 organizations, including the United Nations Secretariat and United Nations peacekeeping operations.

92. For the period under review, the Board has summarized in an annex to each report the status of the relevant organization's implementation of the Board's recommendations for the financial period ended 31 December 2013. A table summarizing the status of implementation of the recommendations by all organizations is contained in annex III to the present report.

93. Of the total of 526 recommendations made up to the year 2013 (up to June 2014 for United Nations peacekeeping operations), 261 recommendations (49.6 per cent) had been fully implemented. This represents a decrease in the rate of implementation compared with the previous biennium, for which 56 per cent of past recommendations had been fully implemented. For the rest of the recommendations:

- 206 recommendations (39.2 per cent) were under implementation
- 29 recommendations (5.5 per cent) had not been implemented
- 23 recommendations (4.4 per cent) had been overtaken by events
- 2 recommendations (0.4 per cent) had been reiterated
- 5 recommendations (1 per cent) had been closed by the Board

94. While the Board welcomes the progress made in the implementation of its previous recommendations, it emphasizes the need to address the unimplemented recommendations. The specific reasons for which recommendations had not been fully implemented by the early to middle part of financial year 2014 were provided separately in the Board's report on each organization.

95. The Board's recommendations cover a wide variety of topics across many organizations, and the rates of implementation vary at the organizational level. Given the range of topics covered, the Board could not discern any meaningful patterns or trends that would merit comment with regard to the recommendations that had not been implemented.

96. The Board would like to highlight, however, the following critical lessons learned by the Administration in the implementation of recommendations:

- The need for the Administration to establish a dedicated follow-up mechanism or function by allocating specific responsibility for the implementation of all recommendations to the relevant divisions, holding them to account for doing so within a predetermined time frame.
- The need for management to take greater ownership of implementing recommendations to effectively address the root causes of the problems identified by the Board.

IV. Acknowledgement

97. The Board wishes to express its appreciation for the cooperation and assistance extended to it and its staff by the United Nations Secretariat and the funds and programmes.

(Signed) **Mussa Juma Assad**
Controller and Auditor General
of the United Republic of Tanzania
Chair of the Board of Auditors

(Signed) **Sir Amyas C. E. Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland

(Signed) **Shashi Kant Sharma**
Comptroller and Auditor-General of India

Annex I**Organizations or topics audited**

<i>Organization</i>	<i>Lead auditor</i>
United Nations (Vol. I)	United Kingdom
United Nations peacekeeping operations	India
International Trade Centre	United Kingdom
United Nations Capital Development Fund	United Republic of Tanzania
United Nations Development Programme	United Republic of Tanzania
United Nations Environment Programme	United Republic of Tanzania
United Nations Population Fund	United Republic of Tanzania
United Nations Human Settlements Programme	United Republic of Tanzania
United Nations Children's Fund	India
United Nations Institute for Training and Research	India
Office of the United Nations High Commissioner for Refugees	United Kingdom
United Nations Joint Staff Pension Fund	India
United Nations Office on Drugs and Crime	United Kingdom
United Nations Office for Project Services	United Kingdom
United Nations Relief and Works Agency for Palestine Refugees in the Near East	United Republic of Tanzania
United Nations University	India
United Nations Entity for Gender Equality and the Empowerment of Women	United Republic of Tanzania
International Criminal Tribunal for Rwanda	United Republic of Tanzania
International Criminal Tribunal for the Former Yugoslavia	United Republic of Tanzania
International Residual Mechanism for Criminal Tribunals	United Republic of Tanzania

Annex II

Explanation of types of audit opinions

<i>Unmodified Unqualified</i>	<i>Qualified</i>	<i>Adverse</i>	<i>Modified</i>	<i>Disclaimer</i>
An unmodified opinion implies that the financial statements of the auditee were prepared, in all material respects, in accordance with the applicable financial reporting framework, i.e., the International Public Sector Accounting Standards, which have been adopted by the United Nations and its funds and programmes.	A qualified opinion implies that the auditor, who, having obtained sufficient and appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements, or that the auditor is unable to obtain sufficient appropriate audit evidence on which to base an opinion on specific areas, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. Therefore an auditor expresses an opinion on the fair presentation of financial statements, but with an exception only for the area for which he/she did not get sufficient audit evidence.	An adverse opinion implies that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements, based on sufficient appropriate audit evidence.	A disclaimer of opinion is issued when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, normally due to scope limitation, and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. A disclaimer of opinion shall also be issued when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding his or her having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements owing to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.	

Note: "Emphasis of matter" is to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report. "Other matters" is to draw attention to any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Annex III

Status of implementation of the recommendations of the Board of Auditors for the year 2013 as at 30 March 2015

Organization	Number of recommendations	Fully implemented	Under implementation	Not implemented	Overtaken by events	Reiterated	Closed by the Board
United Nations (Vol. I)	47	5	19	18	0	—	5
United Nations peacekeeping operations	49	25	17	—	7	—	—
International Trade Centre	14	3	10	—	1	—	—
United Nations Capital Development Fund	11	6	4	1	—	—	—
United Nations Development Programme	81	74	7	—	—	—	—
United Nations Environment Programme	15	8	6	—	1	—	—
United Nations Population Fund	22	12	10	—	—	—	—
United Nations Human Settlements Programme	15	11	3	1	—	—	—
United Nations Children's Fund	24	10	11	1	2	—	—
United Nations Institute for Training and Research	10	3	5	2	—	—	—
Office of the United Nations High Commissioner for Refugees	40	27	12	1	—	—	—
United Nations Joint Staff Pension Fund	12	9	3	—	—	—	—
United Nations Office on Drugs and Crime	35	15	13	—	7	—	—
United Nations Office for Project Services	32	10	18	4	—	—	—
United Nations Relief and Works Agency for Palestine Refugees in the Near East	60	2	50	1	5	2	—
United Nations University	11	5	6	—	—	—	—
United Nations Entity for Gender Equality and the Empowerment of Women	34	27	7	—	—	—	—
International Criminal Tribunal for Rwanda	7	3	4	—	—	—	—

Organization	Number of recommendations	Fully implemented	Under implementation	Not implemented	Overtaken by events	Reiterated	Closed by the Board
International Criminal Tribunal for the Former Yugoslavia	7	6	1	-	-	-	-
International Residual Mechanism for Criminal Tribunals	-	-	-	-	-	-	-
Total	526	261	206	29	23	2	5
Percentage	100	49.6	39.2	5.5	4.4	0.4	1.0
Total (2013)	467	263	188	10	6	-	-
Percentage (2013)	100	56	40	2	1	-	-

Source: Board reports for 2014.

Note: United Nations peacekeeping operations have an annual financial cycle ending 30 June; therefore, the figures reported are for recommendations made up to 30 June 2014.